



16 March 2020

Ken Siong
IESBA Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York
10017 USA

Dear Sir

Comments on the IESBA's Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers (EQR).

Our comments are presented under the following sections:

1. Request for specific comments and responses; and
2. General comments

If further clarity is required on any of our comments, kindly e-mail us at ardsupport@agsa.co.za. Alternatively, phone us directly on +27 12 426 8000.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alice Muller'.

Alice Muller (CA) SA

Acting National Leader: Audit

Request for specific comments and responses

The AGSA shares the concern of respondents that the objectivity of an EQR may be threatened where the individual was previously involved in the audit engagement.

The following are our responses to the specific questions as per IESBA's *Request for Comment*:

Question 1

Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

Yes, the objectivity of the EQR is critical to the effectiveness of the EQ review.

Question 2

If so, do you support the location of the proposed guidance in Section 120 of the Code?

We agree with the view that Section 120 of the Code is the most appropriate location given that the circumstance in question creates a threat to compliance with the fundamental principle of objectivity, thus the requirements and application guidance should be addressed in this section.

Question 3

Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

We disagree with the view of IESBA for the following reasons:

EQR whilst not a primary member of the audit team, fulfils a critical role, thus independence and objectivity is critical and would still apply to the person. Furthermore, the IESBA already expressed that threats to the objectivity of an engagement partner stepping into an EQR role are an important issue that needs to be addressed. It is highly unlikely that there are any other safeguards that can be effective to eliminate the threat or reduce it to an acceptable level.

Accordingly, there should be a prescribed cooling-off period specifically for Professional Accountants who were involved in an Audit, Review and/or Other Assurance Engagement who intend on stepping into an EQR role specific to that auditee.

To address the following (par 16 of the ED): "the IESBA was mindful that a strict prohibition on an individual serving in the EQR role in that situation unless the individual has served a cooling-off period may not be proportionate in certain circumstances", the

same approach followed when prescribing cooling-off period under R540.5 for Long Association of Personnel with an auditee can be followed.

The IESBA in consultation with the IAASB should determine the appropriate period for cooling off. Furthermore, we believe mitigation of the objectivity risk is important to warrant inclusion on the code. Recent reports and questions posed on credibility of audits necessitates that this risk be more actively mitigated, and consequences of non-compliance be addressed with the required level of importance and attention.

General Comments

Under proposed ISQM 1, an EQ review may be performed for a variety of engagements (i.e., not only audits of financial statements, and not only for audits of listed entities), depending on whether the firm determines that an EQ review is an appropriate response to a quality risk. The proposed application guidance on the application of the conceptual framework to address the topic of the objectivity of an EQ review would be appropriate in those EQ reviews.